



President's Message

The Twenty-Third Annual Economic Policy Conference of the Federal Reserve Bank of St. Louis, held on October 22-23, 1998, assembled a broad spectrum of labor economists and macroeconomists to present research on the nexus between their two fields. This area of research is a part of the broader effort that has been underway during the last 30 years to reconnect micro- and macroeconomics. During the 1960s and early 1970s, neglect of microeconomics helped to lead macroeconomists and policymakers into making some of their biggest mistakes, and those errors helped to prompt this important undertaking.

It is not surprising that labor markets, in particular, have played an important role in macroeconomics—after all, compensation makes up more than two-thirds of gross domestic product in the United States. Neither is it surprising that labor markets have been a focus of controversy; those who are so inclined (John Maynard Keynes was one) can muster a number of arguments to the effect that the invisible hand is not very dexterous in labor markets. The accumulation of knowledge and skills, the need for motivation, and government policies form an intricate web of interactions that make labor economics a complex, but rich and rewarding field.

If correct, some of these ideas about how labor markets work would have important implications for the conduct of monetary policy. For example, nominal wage rigidity, which figures prominently in the papers that follow, has been advanced as a reason to allow some inflation. Although I am convinced that particular argument is seriously flawed, I certainly am not convinced that we know the core truth in all of these arguments. For example, neither

the facts about wage rigidity nor their interpretation is a closed subject. Like so many areas of economics, our understanding only scratches the surface. Only repeated interaction of economic logic with careful examination of the data will advance the state of knowledge.

The papers in this volume exhibit exactly that kind of constructive interaction between theory and data. By my count, the papers are evenly split between those that use data to challenge conventional wisdom (or map out new questions for economic theorists) and those that use economic theory to try to understand empirical observations. Any reader will find both challenging ideas and ideas to challenge. I applaud the efforts of the authors and discussants and hope that this volume will encourage others to push the frontiers of our understanding a little further.

William Poole
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REVIEW

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